

WHERE IS THE MONEY?

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Introduction



- Appreciation for the invitation
- There is an increasing awareness about MSMEs and a paradigm shift from LEs to MSMEs.
- I am also engaged in the promotion of MSME development
- The MSMEs that I know (from studies as well as my interaction with them) suffer from dearth of money supply, and they are always asking us at SMEDAN, 'Where can I get the money to run my business?' – **Where is the money?**

The Needs of MSMEs for Money



- MSMEs, or more specifically micro and small businesses (MSEs) need money of the right size and tenor at the right time to do the following, among other things:
 - To enhance their capacity to pay for Business Development Services (BDS), or the preparation of feasibility study/business plan in particular;
 - To register as a legal entity;
 - To rent/lease/own a small shop or workspace,
 - to start, expand/ modernize operations,
 - To meet statutory requirements such as SON and NAFDAC registrations,
 - or even to pay for a franchise (which is the subject of this programme).

New Financing Initiatives



- The expanding, yet evasive need of MSEs for money is stimulating a number of new initiatives in support of that sub-sector, such as
 - The introduction of a new microfinance policy, including the conversion of community banks to microfinance banks
 - The consolidation in the banking sector
 - The introduction of SMEEIS fund.
 - The proposed N50 billion financing programme for agriculture
 - Special financing programmes between Nigeria and bilateral/multilateral institutions, e.g. the World Bank and JICA (Japan International Cooperation Agency)
 - The restructuring and re-capitalization of Development Finance Institutions
 - Elsewhere, there is infrastructural leasing and financial services using Special Purpose Vehicles (SPVs)
- It is not my intention to appraise these measures in this presentation, but I believe they are worthy of closer scrutiny in this interactive session

Where is the Money?



- From my observations, these initiatives still leave the MSEs in the cold, underlining the need to unlock where the money is. So the question remains relevant still: “Where is the money?”.
- May be we can look in the following directions:
 - a. Money in circulation- the CBN estimated this at N545.7 billion as at 31st Dec. 2004
 - b. Money in the vaults of the banks - either voluntarily or involuntarily to meet statutory requirements. Although only the commercial banks are obligated to maintain some statutory ratios, we know that some development, micro-finance or specialised banks also maintain some reserves for precautionary purposes).
 - c. There is also some good money in the pockets of the few rich, who sometimes have wrong priorities or do not know what to do productively with such monies.

Where is the Money?



- d. There are some monies with moneylenders, who give them out at prohibitive rates
- e. Some NGOs operating microfinance schemes also do have some crumbs
- f. Development Partners and multi-national institutions.
- g. Large enterprises giving supplier credit to MSMEs.
- h. The token in the pocket of the poor - estimated at an average of \$1,000 per capita, which probably makes him live from hand to mouth, and probably with nothing to re-invest.

Where is the money cont'd?



- I actually believe the money we are talking about is locked up in the economic potentials of micro and small enterprises which they could not unleash because of several internal and external bottlenecks or constraints that they have to contend with.
- By external constraints I mean those bottlenecks that are beyond the control of the MSEs, while internal constraints are those inherent in them

Where is the Money to boost Per Capita Income?



- The Organization for Economic Cooperation and Development (OECD), and other International institutions have calculated the minimum per capita required by a nation-state to create economic sustainability to be US\$5,000 (N650,000, at about N130 to \$1). The median average per capita GDP of OECD members is US\$27,700.
- For Nigeria to meet OECD's benchmark of a sustainable economy, represented by a minimum of US\$5,000 per capita GDP, an estimated sum of about US\$6 trillion will be required over the next ten years.
- Then the question arises again: Where will this money come from to boost the per capita income and to unleash the huge MSE potentials?
- Even with all the promises of franchising, where will a typical Nigerian MSE find the money to acquire a good franchise?

Franchising: a quick fix strategy



- Franchising may be a quick fix for MSE growth as it offers franchisees the advantage of starting up a new business quickly based on a proven trademark of doing business, as opposed to having to build a new business and brand from scratch which is often in the face of aggressive competition from franchise operators.
- (According to the Financial Times, if sales by US franchise businesses (FBs), were translated into national product, the FBs would qualify as the 7th largest economy in the world).

Franchising: a quick fix strategy



- But from the point of view of a typical Nigerian MSE, franchising is not cheap (especially at Nigeria's current level of Per Capita Income)
- We are talking for example about N50 million for 'Mr. Biggs' and N45 Million for 'Tantalizer' franchises!
- Even if the money could be sourced (which is not easy), there are the additional challenges of weak managerial capacities in terms of the necessary discipline to run an enterprise, in terms of business and financial management, legal capacity, cash-flow management, qualitative products and services and an overall competence to compete in the face of aggressive competition.

Can We Say Nigerian MSEs are ready for Franchising?



- Answer: Not until considerable efforts have been made to reduce if not eliminate their external internal constraints including in particular:
 1. Poor state of infrastructure
 2. Lack of basic business capacity among the MSEs - knowledge, skills, attitude.
 3. Weak access to production inputs especially finance, on the account of the risky nature and cost of servicing the MSEs (without the banks making any concrete effort to help deal with these problems
 4. Poor access to information and weak capacity to use information
 5. Lack of appropriate workspace
 6. Low capacity to invest in R&D
 7. Low capacity to invest in, and utilise ICT & E – Commerce; just to mention a few.

The Efforts of SMEDAN



- SMEDAN is not in a position to give money, despite the universal acknowledgement that money is a critical resource for MSE development, but the Agency is focused primarily on correcting the capacity inadequacies of this segment to enable them access the various financing options and subsequently contribute significantly to economic growth
- The Agency's activities include:
 1. Provision of Business Information on markets, raw materials, sources and prices of machines and equipments, model business profiles, legal and regulatory issues, etc. With the Agency's One Local Government One Product (OLOP), a potential investor knows what enterprise is most viable in any LGA in the country
 2. Provision of Business Development Services (BDS) which include:
 - Training
 - Mentoring
 - Counselling



The Efforts of SMEDAN Concentrated on...

3. Cluster Promotion: A detailed assessment of the Otigba Computer Village, Nnewi Auto, Aba garments, Abeokuta and Oshogbo tie & dye, Kano leather and Aba footwear clusters was done. The Agency is also nudging new clusters such as those engaging in catfish, cassava, vegetable and rice farming.
4. Strengthening the various Business Membership Organizations (BMOs) such as NASSI and NASME – to make way for efficient service delivery to their members.
5. Facilitation of Access to other resources- finance, workspace, etc.

Efforts of SMEDAN Cont'd...



- SMEDAN is making frantic efforts at making the MSEs more organised and formalised knowing that this will make the country a potential destination for outsourcing.
- However, we cannot do it alone, there needs to be a public-private partnership effort at making Nigerian MSEs a potential target for Foreign Direct and Indirect Investment through various strategies, including franchising.
- There must be a concerted effort, especially from the banks to make funds available to MSEs – either directly, or through other well-thought-out initiatives.

Conclusion



- The major challenge to MSE development in Nigeria is helping them to appreciate what they are capable of doing and assisting them to do so.
- There is also the need to assist them to unlock their potentials and access necessary funding
- The Nigerian banks have a major responsibility in this regard beyond mere provision of finance, albeit to 'ready-made' firms.
- At times, the best way to enjoy a meal is to contribute to its cooking.
- SMEDAN's emphasis remains the provision of BDS. I believe Nigerian commercial banks should also see MSE financing as development finance, which I define to be a combination of actual finance with BDS.

Conclusion



- Banks in other parts of the world are doing this. They don't necessarily have to deliver BDS themselves, but in cooperation with credible BDS providers.
- The principle of PPP should be emphasised to facilitate the unlocking of where the money is
- Infrastructure leasing and financing services using SPVs would also be a tool for unlocking where the money is
- The potentials for franchising in Nigeria is huge. So also is outsourcing, but concerted efforts are required to realise these potentials
- Perhaps this forum is one good step in this direction



**THANK YOU FOR
YOUR ATTENTION**